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TAGS: [ECON](#) [PGOV](#) [RS](#) [SOCI](#)
SUBJECT: MEDVEDEV AND RUSSIA'S NATIONAL PRIORITY PROJECTS
-- ALL HAT, NO CATTLE?

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Classified By: ECMIN Eric T. Schultz for reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (C) President Putin's choice of Dmitry Medvedev as his successor has been cause for optimism among much of Russia's business elite, who point to Medvedev's calls for more economic freedom. However, Medvedev's public record provides little substance to support this rhetoric. In addition to his problematic chairmanship of Gazprom, Medvedev's other high profile responsibility has been running Russia's National Priority Projects (NPPs) in healthcare, education, housing, and agriculture since 2006. Under Medvedev, the NPPs have accomplished relatively little, providing grist for cynics who see the NPPs as window dressing and leading to public disillusionment.

Medvedev as Closet Liberal

[1](#)2. (C) Echoing the prevailing business sentiment in Russia, Renaissance Capital's Senior Russian partner, Igor Yurgens, told us that President Putin had chosen the successor with the "higher ceiling." He said Dmitry Medvedev was more likely to allow greater economic and political freedom and to bring Russia closer to Europe and to the West than the other alternatives. This sense of optimism in Russia's business community has been further reinforced by Medvedev's campaign for the presidency and in particular his speech February 15 at the Krasnoyarsk Economic Forum, when he called for reduced corruption and greater economic freedom (Ref a). A European diplomatic colleague present at the speech said it received a strongly favorable response from the audience, which had been composed largely of Russian businessmen.

[1](#)3. (SBU) The international business community has also reacted positively to Medvedev's rhetoric. They have interpreted the Krasnoyarsk and other comments by Medvedev and his surrogates as a signal that Medvedev's presidency will pursue more market-oriented economic policies. In a recent internal meeting, the Director of the American Chamber of Commerce highlighted Medvedev's four "I"s: investment, innovation, institutions and infrastructure, which he said would mean a much improved business climate for investors, foreign and domestic.

----- Record versus Rhetoric -----

14. (C) Medvedev's liberal economic rhetoric is not matched by a record of accomplishments. Critics of Medvedev, such as former Deputy Energy Minister Vladimir Milov, have pointed to his record as Chairman of Gazprom, when the company used Russia's energy wealth to pursue political objectives, as evidence that Medvedev is unlikely to back up his words with deeds. Lending further fuel to critics has been Medvedev's other high profile responsibility of the past few years -- his chairmanship of Russia's National Priority Projects (NPPs). The NPPs were started in 2005. President Putin gave Medvedev responsibility for them the following year, reportedly to help develop a positive public image for his protege.

15. (C) From the beginning, critics of the projects contended that the NPP were "window dressing" intended to provide cover for the government's broader economic policies. Lending fuel to this criticism has been the performance of the NPPs, including under Medvedev. The projects were intended to address key social deficiencies and help nurture a Russian middle class. The first three sectors identified were education, health and housing. Agriculture, which still employs a large percentage of Russian workers, was later added as a fourth priority. However, nearly three years after their launch, and despite Medvedev's personal involvement, most experts agree that the projects have been too small in scope and have failed to reform social systems in need of deep structural changes.

----- Performance of the Projects -----

16. (SBU) To assess whether the criticism is deserved we decided to take a closer look at each of the four projects. What we found is a mixed record. Some of the projects have been more successful than others but even the more successful projects have been fairly modest in their scope and in none of them did the reality match the GOR's lofty rhetoric of fundamental reform.

Education: the Most Successful Project -----

17. (SBU) The modernization of the education system has been the most successful of the four projects. In 2007, USD 1.85 billion (50 billion rubles) funded 1400 new buses, internet connectivity in every school, teacher salary increases averaging 25-30 percent, and awards for innovative teachers and schools. Marina Kiseleva, Deputy Head of Coordination of the Education National Project at the Ministry of Education, told us that one of the project's main accomplishments was the new flexibility of schools to decide the best way to educate their students.

18. (SBU) However, the project has not achieved many of its short-term goals. Kiseleva said that schools had a difficult time accepting the new responsibility for modernizing their institutions, especially determining how to make most efficient use of the money. Kiseleva also admitted that there was a huge regional disparity in the quality of education and teacher qualifications and acknowledged that there were no concrete proposals for future programs or for spending this year's budget of USD 1.7 billion.

Healthcare: Improved Technology but Costs, Access Problems -----

19. (SBU) Olga Kochetkova, Acting Head of the Department for Monitoring the National Priority Projects, told us that the health care NPP was improving the state of healthcare in Russia "little by little." In 2007, the GOR claimed the healthcare NPP had been responsible for providing 42,487 new

units of diagnostics equipment, higher-quality medication, and 13,244 new ambulances and that this in turn had led to lower mortality rates and increased birth rates and life expectancy.

¶10. (SBU) However, most experts in the sector, such as Ksenia Yudayeva, Director of Research at the Center for Strategic Research, argued that rising incomes, not the NPP, had led to such improvements. Moreover, even Kochetkova acknowledged that the greatest weakness of the project was its failure to improve affordability of and access to quality healthcare. She added that future plans were unclear due to rumors of a reorganization of the Ministry of Health and Social Development, but that any new initiatives would likely be implemented at the regional, rather than federal level.

Affordable Housing -- Little Progress

¶11. (SBU) According to the GOR, the affordable housing project's 2007 budget of USD 2.3 billion led to the construction of 66 million square meters of new housing (714,000 new apartments), 30 percent more than in 2006. However, experts note that there is still a large imbalance between housing demand and supply, which has effectively maintained high housing prices. The GOR estimates that only 20 percent of Russians were able to afford a new home in 2007, compared with 60 percent of Russians who were in need of new or renovated housing.

¶12. (SBU) More important in the long run, is continued weakness in mortgage lending. Alfa Bank told us that the mortgage market in Russia amounts to only 1.8 percent of GDP compared with 15-20 percent in Eastern European countries and 80 percent in the U.S. Moreover, Andrei Shirokov, Head of the Department of Real Estate and Urban Infrastructure Management at the Moscow Institute of State and Corporate Governance, noted that up to two-thirds of Russia's housing, or 3.8 billion square meters, needs repair and estimated that the repairs would require USD \$200-400 billion.

Agriculture NPP -- a Failure

¶13. (SBU) In December 2007, Russian Minister of Agriculture Aleksey Gordeyev declared "victory" in implementation of the National Priority Project for Development of the Agroindustrial Complex and announced that it would be replaced by a five-year "Program of Agricultural Development and Market Regulation" (much of which is yet to be funded). Gordeyev pointed to increases in meat and dairy production, increased loans to smallholders and cooperatives, and the Russian Agricultural Bank (Rosselkhozbank), responsible for nearly two thirds of agricultural loans issued under the NPP, quadrupling its branch network. In addition, he claimed that the NPP had created 3,700 rural cooperatives.

¶14. (SBU) In reality, however, the NPP has largely been a failure. Ministry officials admitted publicly that roughly half of the new rural cooperatives exist only on paper. Other officials acknowledged that the reported increases in meat and milk production were unsupported, and increases in meat production were either unrelated to the project (poultry) or have led to financial hardship (pork). Finally, the rapid expansion of credit cooperatives and Rosselkhozbank's branch network, coupled with the political imperative to push money out to rural areas in advance of the December 2007 Duma elections, resulted in many suspect loans that will likely lead to a ballooning default rate in 2008.

A Disillusioned Public

¶15. (SBU) The flawed implementation of the NPPs appears to have disillusioned the Russian public. More than half (53

percent) of respondents to a Levada Center poll said the NPPs had not affected them at all. The public was also skeptical about continuing the NPPs, as nearly half (49 percent) of respondents did not believe the projects would improve the country's social woes. Much of the public's cynicism appears to have its roots in the fact that more than half (52 percent) of respondents thought the funding would be inefficiently spent. Moreover, more respondents believed the money would be stolen than spent efficiently (22 and 15 percent, respectively). In addition, based on anecdotal information, between 10 and 30 percent of NPP funds was diverted to kickbacks in return for program award, and thus not spent as intended.

Comment

116. (C) With respect to the NPPs, Medvedev has failed to match a record of accomplishment with his strong rhetoric in favor of improved social services. Last month he announced that the GOR was drafting a new long-term program for social and economic development through 2020. However, most of the experts with whom we talked predicted that this too would accomplish little. Under a Medvedev presidency, the most likely scenario is a continuation of the current approach of small scale projects and that he would avoid any large controversial reforms. That said, Medvedev may come under pressure early in his presidency to make good on his promises and accelerate social spending. How he responds to that pressure could be an early indicator of the direction economic policy will take in his presidency. End comment.
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